C2425-3
9/15/88

A Publication of Communication Channels, Inc.

SEPTEMBER 1988

AMERICAN CITY & COUNTY®

Over 190,000 Readers Every Month

Privatization: Does It Work?

Problem-Solving With Atlanta's Chester Funnye

How To Use Consultants

Conserving America's Water Supplies

Road Maintenance: The New Priority

OUR 80th YEAR

Special APWA Conference Issue

CIT36591895
K KENDRICK
CONGRESSIONAL INFORMATION
4520 EAST WEST HWY-800 MST
BETHESDA MD 20814

AMERICAN CITY & COUNTY®

September 1988 Vol. 103, No. 9

42 Future Water

WATER SUPPLY **42** **Saving Water for the Future**
Droughts and floods have made water managers better prepared today than they were before, but problems still remain. ☐ **44** Computer-Modeling Studies Yield Solutions ☐ **48** Challenges Confront Municipal Rate Setters ☐ **56** Stemming the Flow of Water Needs ☐ **58** Conservation Seminars Offered to Municipal Officials ☐ **60** Nevada Plant Renovation Cuts Operating Costs

62 Rehabilitating Roads

STREETS & HIGHWAYS **62** **Roadway Rehab**
Uncertain federal funds in the face of decaying roads and bridges are causing local officials to look at other methods of roadway maintenance. ☐ **66** The French Solution to Highway Noise ☐ **68** Our 80th Year — A Look Back at Resurfacing Roads in 1927

GROUNDS UPKEEP **74** **Tractor Attachments Add Versatility**
Selecting the right mix of machines is an important decision for grounds keepers. ☐ **74** Kansas City Renovates Garage/Plaza ☐ **76** Product Focus: Grounds Maintenance

PUBLIC/ PRIVATE **80** **Creative Management Through Privatization**
Taxpayers increasingly are demanding the best value for government services. ☐ **84** A Big Bargain for a Small Town ☐ **86** The Impact on Economic Growth ☐ **88** Municipal Services Ripe for Privatized Picking

PROFILE **90** **Chet Funnye: Problem Solver**
Atlanta's public works director will bring his nuts-and-bolts approach to the APWA's top job.

SOLID WASTE **94** **New Provisions Place Burden on Municipalities**
Complex planning and reporting programs are required for hazardous waste and toxic substance handlers. ☐ **96** Investigating Privatized Collection ☐ **98** Emergency-Response Teams Developed

80 Going Private

Bridging Past and Present

This issue marks the beginning of our 80th year as America's "Voice of Local Government." Arthur Grant, the magazine's first editor and co-founder, recognized early the leadership role cities would play in the economic and societal growth of the United States. His 1909 vision included a magazine appealing to the more-subtle qualities of cities and their populations. Early issues of *The American City* stressed the necessity of providing a healthy, safe urban environment.

Over the past eight decades, the magazine has changed ownership four times; it became *American City & County* during the mid 1970s. In 1983, Communication Channels Inc. purchased the publication.

Beginning with this issue and continuing throughout the coming year, we will be looking back at previous issues and reprinting articles from the past eight decades, under the title "Our 80th Year." The problems local governments face have not changed throughout the past 80 years, but the solutions have. These articles provide a unique perspective for today's municipal managers from their counterparts of yesteryear. □

PUBLIC TRANSIT

102 Light-Rail Systems Making Comeback
Though the automobile rage once threatened their existence, trolleys and other forms of light rail are seeing heavy use. □ **104** Our 80th Year — A Look at the State of Light-Rail Transit in the 1940s

SPECIAL REPORT

198 Negotiating With Consultants
Cooperation is vital when negotiating with consultants since municipalities must use a competitive bidding format for contracts. □ **110** Insist on Formal Quality Control

OPINION

112 The Rebirth of Urban America
The Heritage Foundation believes American cities and counties are better off now than during the 1970s.

PRODUCT FOCUS

115 APWA Products & Services
Featuring products by companies exhibiting this month at the International Public Works Congress and Equipment Show in Toronto, Canada.

AWARDS OF MERIT

117 American City & County's Awards of Merit
This year's annual competition drew entries in nine categories from 29 states.

FINANCE

119 Fiscal Federalism: A Vanishing Act
Sufficient time has passed under new federalism to see some trends emerging.

90 APWA's Funnye

108 Consultant Contracts

Cover photography by, top to bottom: Jerry Hoy/Double Vision, Tom Levy, Jerry Hoy/Double Vision, Jerry Hoy/Double Vision, and Terry Teague & Associates.

DEPARTMENTS

4 Editor's View
6 Calendar
12 Reader's Forum
20 Financial Management
22 Information Technology
24 Inside Washington
26 Across America
125 Resource Recovery
126 Newsmakers
127 Product Review
130 Buyer's Index
132 Services and Contracts
134 Professional Services
136 Classified
140 Municipal Cost Indexes

AMERICAN CITY & COUNTY

KEN ANDERBERG — Associate Publisher/Editor
STEVE STONE — Associate Publisher/Advertising
TIM DARNELL — Associate Editor
TOM LEVY — Assistant Editor
CHARLES NEEDLE — Editorial Assistant
KIMBERLY JONES — Editorial Assistant
JOHN BOWEN — Editorial Assistant
KIM BEURY — Washington Correspondent
MARTY GREENE — Production Director
PAT GREENE — Production Manager
BRIAN BUXTON — Art Director
ELMER DALTON — Circulation Director
NANCY HICKS — Promotion Director
ALICE HARNED — Promotion Manager
SHELBY BOLES — Classified Advertising
PETER WARD — Marketing Director
KATHY WILSON — Circulation Manager

EDITORIAL ADVISORY BOARD

RICHARD BERKLEY, Mayor — Kansas City, Missouri
CLYDE W. FRITZ, Vice President — Johnson & Higgins
CHESTER FUNNYE, Commissioner, Public Works — Atlanta, Georgia
RONALD JENSEN, Director, Public Works — Phoenix, Arizona
DANIEL A. KLEMAN, City Manager — Tallahassee, Florida
ANN KLINGER, County Supervisor — Merced County, California
PAMELA PLUMB, City Councilor — Portland, Maine
MEL POWELL, Dean, Public Policy and Administration — California State University, Long Beach
PETER SFERRAZZA, Mayor — Reno, Nevada
COSTIS TOREGAS, President — Public Technology Inc.
JOHN T. WALSH, Director of Finance (Retired) — Hartford, Connecticut
BUFORD WATSON, City Manager — Lawrence, Kansas

VBPA American City & County is published monthly by Communication Channels, Inc., George E. Fowkes, Chairman of the Board; Jerrold France, President; Scott Smith, Secretary; Buford Bryant, Treasurer. Editorial and advertising offices at 6255 Barfield Road, Atlanta, GA 30328. Telephone 404-256-9800. American City & County is a registered trademark of Communication Channels, Inc.

© 1988 by Communication Channels, Inc., Atlanta, Ga.,

Second-class postage paid at Atlanta, Ga., and at additional mailing offices. Subscription rates: U.S.A., 1 year, $42; 2 years, $63; Canada and Mexico, 1 year, $46; Foreign, 1 year, $52; overseas air mail, $112; Single copies, $3.50. Municipal Index, $44.50 (Domestic) and $57.50 (Foreign).

The opinions expressed by authors and contributors to American City & County are not necessarily those of the editors or publisher. Articles appearing in American City & County may not be reproduced in whole or in part without permission of the publisher.

Microfilm copies of American City & County are available from Xerox University Microfilms, Ann Arbor, Mich., 48109. Postmaster: Please send form 3579 to Circulation Department, American City & County, 6255 Barfield Road, Atlanta, GA 30328.
ISSN 0149-337X

My Last Editorial

Perhaps the first time I truly grasped the importance and credibility of *American City & County* magazine was about four years ago as I sat in an almost empty hotel restaurant on the bank of The Riverwalk in San Antonio. The restaurant was closed but I was being served breakfast, not so much because of who I was or what I represented, but more because of the status of my host — Mayor Henry Cisneros.

Everyone has benchmarks in their lives, and this was one of mine. The stature of *American City & County* had brought the two of us together that morning, in an empty restaurant catering two individuals — one an Hispanic-American with presidential credentials and the other a well-traveled journalist whose maternal grandparents spoke no English when they arrived from Italy half a century ago.

Actually, the learning process for me began months earlier, even back to that July day in 1983 when I first saw *American City & County*, envisioning the great avenues a magazine with such a name could meander. True, by that July day the magazine had hit its lowest ebb since founder and first editor Arthur Grant sold his fledging publication to Harold and Edgar Buttenheim in 1911. But in 1983 a faithful audience of city and county leaders still relied on *American City & County* for information useful in their jobs, and discussion of the issues and trends most important to local government.

Early in 1984, we began preparations for the 75th anniversary of this long-great publication, still not quite familiar with the audience and the latent potential of the magazine. During that preparation, I took the time to read many of the old editions, including the very first. Grant's vision of a publication representing the interests of the nation's cities was inspiring. He saw his creation, then titled *The American City*, as not only a watchdog for the needs of cities, but also as a conscience of sorts to safeguard the public interest.

The 75th anniversary issue of *American City & County* is one of my favorites. The result of our research was a compendium of the best of *American City & County*, including articles by Calvin Coolidge, Franklin Roosevelt and Lyndon Johnson. What was interesting throughout that edition of reprints of older articles was the realization it gave me that the problems of decades ago are still the challenges of today. Local government still fights the waste disposal, street repair and water supply and treatment battles, along with newer concerns such as health care and homelessness.

American City & County has made many influential friends in the last 79 years; I feel fortunate to have been a part of that process in the last five. During those five years, I've had the privilege of working with many of the top officers of such organizations as the U.S. Conference of Mayors, American Public Works Association, National League of Cities, National Association of Counties, International City Management Association and Government Finance Officers Association. Many of those officers served on the magazine's Editorial Advisory Board and helped me formulate direction for this publication. I was always struck how these important people would invariably agree to a stranger's invitation to serve on this board.

How can I ever adequately thank such fine people as Henry Cisneros, Charleston, S.C., Mayor Joe Riley, High Point, N.C., Public Works Director Carl Wills, Kenton County, Ky., County Executive Bob Aldemeyer, Indianapolis Public Works Director Barbara Gole, and retired Hartford, Conn., Finance Director John Walsh. The list seems almost endless.

Over the last five years, these people have helped me grow, and helped *American City & County* prosper. Their support and guidance are much of what I will miss now as I step down as editor of this magazine to take on another challenge offered to me by Communication Channels Inc., the parent company of *American City & County*. I leave this magazine truly with a heavy heart, my friends, but I will be only a corridor or two away — although part of my soul will remain with *American City & County*.

This magazine has greatness as its heritage, public service as its goal, and influential friends as its supporters in every city, county, town and hamlet in the United States. This month marks the beginning of the 80th year of one of America's most-important publications, as well as my last as editor.

Keep the faith and keep in touch. □

— Ken Anderberg

NLC Examines Ways To Help Families

Using surveys, detailed examinations of selected cities and other information, the National League of Cities (NLC) is examining ways local governments can respond to the needs of children and families. John Kyle, former director of Maryland's Office for Children and Youth, is directing the effort.

The NLC "Kids Project" will encourage and enable local officials to be more responsive to the special needs of children and families, especially those living in poverty or who are otherwise "at risk."

"There is a growing interest among city officials in issues relating to children and families," says Alan Beals, NLC executive director. The league conducts research on urban policy issues and works as an advocate for cities in the development and implementation of federal policies and programs. This project, funded by grants from the Lilly Endowment, Carnegie Corp. and the Rockefeller Foundation, is the second phase of NLC's research on issues involving children and families.

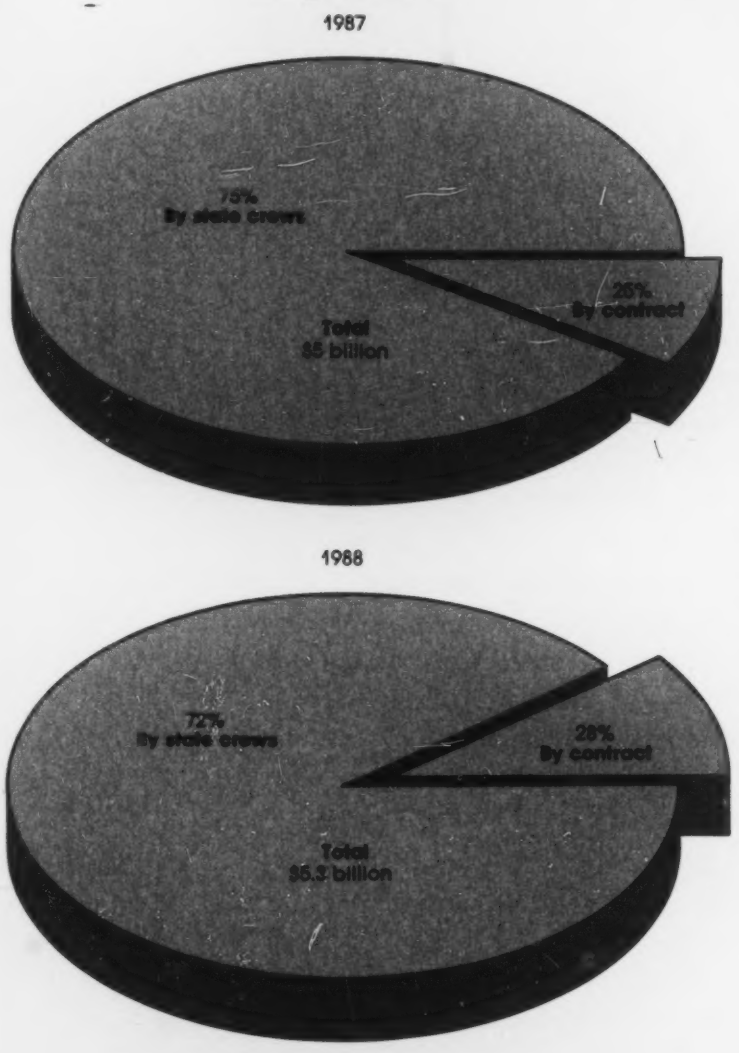
William Barnes, NLC's director of research, says the project will lay the groundwork for future efforts establishing broad, long-term presence, resources and action by NLC and local governments to assist children and families in the nation's cities and towns.

Much of the research will focus on problems encountered by children and families living in poverty or socially at-risk. More than 20 percent of America's children live in poverty, and students from poor families are three to four times more likely to drop out of school than students from more affluent families.

The NLC "Kids Project" will lead to the development of data bases for information sharing, technical assistance and conference workshops.

SURVEY SPOTLIGHT

Highway Maintenance Budgets Grow



Source: ENR Construction Economics Department

State highway budgets have increased over the past year, and this month's SURVEY SPOTLIGHT illustrates how much maintenance is performed by state crews and through private contracts.

Innovative Approaches Honored at Local Level

An imaginative approach to financing water and sewage facilities in Escondido, Calif., a program helping Chicago welfare recipients find and keep jobs, and a project preserving jobs in mature Massachusetts industries are three of 25 projects named finalists in the 1988 Innovations in State and Local Government Awards Program. The program is sponsored jointly by the Ford Foundation and the John F. Kennedy School of Government at Harvard University.

The awards, now in their third year, recognize innovation and creativity in dealing with complex social and economic problems faced by state and local governments, and identify a broad range of new and unusual approaches that can serve as models for other areas. Of the projects selected, nine originated from state governments, nine from cities, five from counties, one from a township and one from an interstate agency.

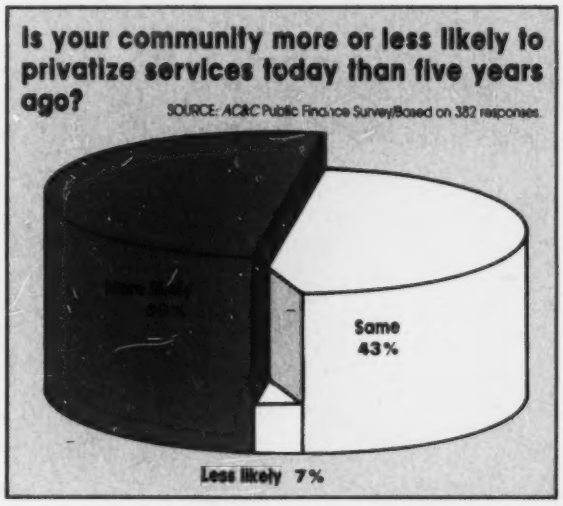
Each finalist will appear before a selection committee and 10 winners will be announced later this month. The winners will receive a Ford grant of $100,000.

"Since its beginning in 1986, more than 3,000 projects have competed, demonstrating a tremendous depth and range of problem-solving abilities," says

Creative Management Through Privatization

By John R. Miller and Christopher R. Tufts

American industry leaders have come to realize if they want to hold a competitive place in the global economy, they must demonstrate their products represent the best value to the buying public. Consumers are more interested in quality and value than brand loyalty. This mode of economics-based decision-making is now, more than ever, being applied by taxpayers to the services delivered by local governments. Taxpayers are demanding the best value for their hard-earned dollars.


Is your community more or less likely to privatize services today than five years ago?
SOURCE: ACIR Public Finance Survey/Based on 382 responses.
Same
43%
Less likely 7%

Many companies are adopting "downsizing" business strategies. Key components of downsizing include productivity and quality-improvement programs, mergers, streamlined operations, and divestiture of unprofitable businesses.

In short, companies have come to realize in order to win in the marketplace they need to accomplish more with less — fewer people, less money, less time, less space and fewer resources, in general. All this must be balanced with creative management.

As many corporate leaders are retrenching to do better what they do best, so, too, must government be willing to do the same. Peter Drucker, in his book, "The Age of Discontinuity," called for "reprivatization" of many government functions, saying, "The purpose of government is to make fundamental decisions and to make them effectively. The purpose of government is to focus the political energies of society. It is to dramatize issues. It is to present fundamental choices. The purpose of government, in other words, is to govern. This, as we have learned in other institutions, is incompatible with 'doing.' Any attempt to combine governing with 'doing' on a large scale paralyzes governments' decision-making capacity."

One downsizing alternative for government to consider is to competitively engage the private sector to produce goods and services readily available from any commercial source. Although the current impetus for privatization is largely pragmatic, the guiding political principle behind it is as old as the nation itself. Americans long have vacillated between Jeffersonian and Hamiltonian philosophies of government. The new momentum for privatization, however, transcends political and ideological boundaries, rooted as it is in the determination of creative government managers to develop innovative solutions to serve the public interest best.

Today, there is broad and growing consensus that privatization, properly implemented, is a legitimate response to a wide range of concerns. Experience shows the private sector can provide many services rendered by government, with equal or greater effectiveness — and at lower cost. Consequently, privatization is likely to exert a powerful influence over the shape of political and economic institutions in coming years.

What is privatization? George Wilson, distinguished professor of business and economics at the Indiana University School of Business, defines privatization on a philosophical plane. He writes, "The broader and more relevant meaning of privatization must refer to nothing more or less than greater reliance upon market forces to generate production of particular goods and services."

In practical terms, privatization is a process by which government engages the private sector to provide capital or otherwise finance government programs, purchase government assets, and/or operate government programs through various types of contractual arrangements.

As privatization usually occurs in combination with other downsizing initiatives, so do many privatization transactions involve combined methods. For example, private-sector capital and other financing, using such vehicles as leveraged leasing, lease purchases and turnkey contracts, are accompanied frequently by operation of government programs through one of four types of arrangements: franchises, grants, vouchers or contracts.

What are the primary objectives of privatization?

- Improve the use of scarce resources by reducing the costs of providing public services, particularly where private enterprise is strong and government is assured of more effective services at lower costs;
- modify the role of government from that of a primary producer of goods and services to that of governing;
- enable government to meet responsibilities that might otherwise be abandoned because they are too costly;
- reduce the debt burden; and
- limit tax rates.

Privatization is not new. The practice can be traced to the first bank of the United States, which served as the federal government's fiscal agency and principal depository of the Treasury and was owned by private shareholders. When the federal government wanted to deliver mail to its citizens west of the Mississippi River, it contracted 80 horseback riders, 40 going each way — and the Pony Express was born. The Homestead Act gave settlers government-owned land if they agreed to cultivate soil for a small fee in a fixed period.

JERRY HOYDOUBLE VISION

The private sector and most local governments historically have utilized business or quasi-government entities to deliver or administer certain services or functions. In the last decade, privatization has expanded from capital construction and professional service contracts to traditionally in-house administrative and public-service program areas, with the majority of governments contracting for at least some legal, medical, engineering, technical and professional services. Indeed, state- and local-government spending for public services performed by the private sector rose from $27.4 billion in 1975 to well over $100 billion in 1985.

State government, though less active than local government, is experimenting with privatization in many areas. California alone wrote 7,000 contracts in 1985 worth more than $2 billion to carry out functions in such areas as mental healt' , corrections and the entire range of administrative services.

The trend toward privatization will continue to grow even though the growth rate for state and local governments will be less than that experienced in the last couple of decades.

A government should consider privatization when its operations are related to the central function of governance, including legislative, judicial and certain financial activities such as rate setting, debt issuance and revenue policy; current service is in direct competition with services operated by the private sector; cost of an existing government-provided service exceeds the available or projected resources; and current operations are inefficient or service is of poor quality.

Privatization is likely to exert a powerful influence over the shape of political entities in coming years.

Some examples of successful privatized service delivery include:

Fire protection. Rural/Metro Fire Department Corp., a privately owned company, serves half a million people in Arizona, one-fifth the state's population, and 100,000 more in Tennessee. In Scottsdale, Ariz., Rural/Metro's $2.3-million contract averages $20 per capita per year, compared with an average of $50 for public fire departments in similar cities. Scottsdale's fire insurance rates, the best measure of fire-fighting effectiveness, are average.

Ambulance service. Newton, Mass., estimates nearly $500,000 savings by privatizing its ambulance service while, at the same time, increasing ambulance availability and coverage.

Grounds maintenance. The Rye, N.Y., school district recently contracted for grounds maintenance with a private company at an estimated savings this year of $34,000, a big number for taxpayers.

Fleet maintenance. Philadelphia contracts for the repair, maintenance and replacement of its motor-vehicle fleet at an estimated savings of more than $4 million in the past four years.

Health care. In Corsicana, Texas, the Navarro County Hospital was old, losing money and about to lose its accreditation. To put it in shape, $12 million was needed. The county turned the hospital over to Hospital Corporation of America, which built a new hospital right next to the old one. The former hospital cost taxpayers $50,000 a year to operate; the new one is paying taxes of more than $300,000 a year.

Data processing. Orange County, Calif., estimates savings of more than $3 million over the past 12 years by hiring a private firm to run its computer center. More importantly, private management of the center by Martin-Marietta has helped keep county costs under control in a county that has doubled in population since 1973.

Not all privatization ventures are successful, however. Two towns in Ohio hired a private security firm to provide police protection. The equipment provided was totally unacceptable. Both towns have fired the company and hired the company's guards to be public police officers.

In another case, a city contracted for trash pickup at one cent per household per month less than the city could provide the service. The company could not work that cheaply, and within months was raising cash by selling equipment that had been donated by the city. Service fell apart at Thanksgiving and Christmas when garbage piled up faster than the company could collect it. A new company took over the contract. "This makes me a lot more cautious," the city's mayor said. "It was a false economy to take a bid that was low by one cent per household per month."

The process of achieving privatization should begin with an analysis of privatization alternatives (franchises, grants, vouchers and contracts) to the current delivery practiced. The analysis should address implementation feasibility, technical performance and cost. The objectives of this analysis are to put parameters around what is to be privatized, select the most appropriate privatization method and develop a scheduled work plan for implementing the transaction.

To meet these objectives, a multi-disciplined team approach is needed. This team should consist of personnel with technical experience in the function under review; legal, personnel, fiscal and contracts staff; and political advisory and independent review support. The team approach provides the appropriate balance of expertise to ensure all issues are identified and practical solutions are formulated. Most importantly, the team approach provides appropriate balance between program, fiscal and political considerations.

While many jurisdictions consider privatization alternatives for apparent fiscal reasons, the first step is to examine the implementation feasibility of privatization alternatives relative to current service delivery. A well-executed implementation-feasibility study will address four key areas:

Political barriers. Can the 50-year legacy of growth in government production of goods and services be overcome? Are the current coalitions of beneficiaries, near beneficiaries, service providers, government administrators, officials, political activists, unions and general populace amenable to change? How do you build the coalitions necessary to support the change process?

Legal issue. What are the statutory, regulatory and tax-law barriers, incentives, and/or requirements for privatization? What modifications to union agreements or ongoing contracts are required? What is the liability impact?

Market. Is the private-sector market mature and developing? Has the private sector shown interest through unsolicited proposals, industry studies or research by industry experts? Are there sufficient qualified bidders to ensure competition and provide the government a favorable risk/reward ratio? What is the private-sector track record in government contract performance? Does the private sector perceive a favorable risk/reward ratio?

Government operations. Will privatizing selected functions of a department disrupt its operations continuity? How will the

affected employees be treated? How will privatization impact accountability? Who, how and with what frequency will the private sector be monitored? What are the performance measures to determine whether performance standards have been met? How will the government control the quality, timing and cost of delivery of privatized services? What are the appropriate penalties (or incentives) to ensure compliance with performance standards and service requirements?

Once the implementation feasibility of alternatives has been examined, the next step is to measure the ratio of anticipated implementation difficulties to the assumed benefits. Each alternative must be evaluated in terms of technical performance criteria to include, but not be limited to:

Availability. Will all consumers, including disadvantaged groups or those in geographically remote regions, be served? Will the service cost be fairly distributed to all consumers? Will the overall cost to citizens increase?

Quality and effectiveness. Will government objectives be achieved more effectively? Will the quality of service improve? Northern Virginia, for example, is pilot-testing subsidized private taxi service to transport passengers from subway stops to bus stops. Passengers pay bus-fare rates and must call in advance to use the service. This program is designed to encourage subway ridership and reduce the cost of operating feeder bus lines.

Risks. Will service disruptions be more likely? What contingencies will be required? A risk analysis quantifying the technical, implementation and cost risks of each alternate delivery option provides a comprehensive and disciplined approach toward reducing uncertainty.

Program impacts. What benefits will be derived? If the computer data center is privatized, will there be benefits from new technology? How will it impact on the operations of department users?

Since privatization is influenced heavily by cost, a thorough costing, economic and pricing analysis needs to be performed for each alternative. The purpose is to estimate potential savings, assess the economic impact, determine specific costs and establish pricing requirements. Three types of studies are performed most frequently.

Financial feasibility studies determine the current and future gross and net costs or savings of the planned privatization transactions compared to the current operating method.

A cost-benefit analysis reveals the costs of new, usually in-

A Big Bargain for a Small Town

Mayor Bobby Yates of Clinton, Ky., likes to cook. He also likes to cook up a good deal. His six-foot-plus frame has a satisfied look, offering evidence of his kitchen credentials. Be it the pork shoulder from Nickey's (proud local source of "the best barbeque in the world") or the fat blackberries neatly boxed in the basement of his office, Yates claims a cupboard stocked almost all the time with the best deals in town.

Mayor Yates relishes his bargains on food, but not more than he savors the success of what he considers his best bargain so far: a privatization agreement cutting 30 percent off the cost of Clinton's once-beleaguered wastewater project.

Clinton Mayor Bobby Yates, left, and Aqua president T. David Whitehouse survey the city's $950,000 wastewater system, the first project completed under the state's 1986 privatization legislation.

One year after signing with the Aqua Corp., Lexington, Ky., for financing, engineering and construction services, only the punch list is left on Kentucky's first wastewater system upgrade completed with private sector support. Clinton's contract with the company trimmed a $1.3-million project price tag to $950,000.

For Yates, this is real satisfaction. "When they send you a letter from Atlanta saying they're going to fine you and send you to jail, it scares the hell out of you," he says. "Then they jerked the grant money out from under us. I was almost ready to resign because of the hassle of it all."

These are serious words, coming from the man who has held public office in his beloved small town (population 1,800) for 26 years. But in 1981, when the U.S. Environmental Protection Agency (EPA) put Clinton under an administrative order to upgrade local wastewater facilities, the town was in a serious situation.

Clinton faced a dilemma encountered by many municipalities: an EPA-mandated wastewater project, an unfundable grants position and few dollars to squeeze from a hard-pressed budget.

Things took a turn for the better in 1986, when the state's General Assembly passed the Kentucky Privatization Act. The law allowed local governments to contract with the private sector to own or operate water and wastewater utilities.

"The approach to privatization used in Clinton is one that has real potential for many communities," says Aqua president T. David Whitehouse. "The ownership of the wastewater system remained in Clinton's hands, which allowed for a tax-free revenue bond issue. It was the capability brought to the table on Clinton's behalf in securing the financing, engineering and construction services that pushed project costs way down."

Clinton is meeting its obligations to the bank underwriting the project (and to the project's eventual bondholders) with a sewer user charge system implemented in October 1987. The user charge replaced Clinton's previous outlay of ad valorem tax revenues from the general fund to pay for wastewater system expenses.

Although monthly sewer rates rose to about $15 per household, privatizing Clinton's wastewater project averted a $45 hike anticipated when planning began during the "201" stage of the EPA's construction grant process. □

novative methods of providing services or doing business, comparing them to the benefits of the alternatives, and identifying the most cost-responsive methods.

Cost and pricing studies identify and examine the direct, indirect, fixed, variable, opportunity and oversight costs associated with a privatization transaction for different levels of service; define what will happen to total costs as the service levels change; and recommend pricing strategies to achieve desired utilizations, cash throw-offs or rates of return.

For each study, the first step should be to determine what constitutes cost, where the data should be obtained, how costs should be calculated and how costs should be projected for future years.

Having completed the implementation-feasibility, technical-performance and cost analyses, a government manager can select and implement the preferred method of service delivery. Privatization, however, is not a panacea for all the challenges facing government managers. It can be one of several downsizing alternatives available and offers an opportunity to introduce the cost-saving, creative, service-generating aspects of competition into the public arena.

Public managers should retain decision-making responsibility, since they must decide what services will be privatized and who will provide them. If managers find a government can provide a service more efficiently and effectively than the private sector, then it would be irresponsible to choose privatization.

Not all methods of privatization will benefit all parties or work in all situations. The concept works best when public managers carefully examine public assets and services, determine which can be replaced by private functions, thoroughly evaluate private-sector competition, assemble representatives from all affected parties to agree mutually on alternatives and solutions, and analyze the combination of tactics to satisfy a broad range of constituents. The key is to develop a workable mix of program and fiscal alternatives.

The challenge to public managers today is to identify and manage that change. □

John Miller is national director of government services, and Christopher Tufts is senior manager for Peat Marwick Main & Co., 3 Chestnut Ridge Road, Montvale, N.J. 07645, (201) 307-7000.

The Impact on Economic Growth

The proponents of privatization see a zero-sum relationship between government and the economy. The bigger the public sector, the smaller the private economy. The more public spending, the less private savings and investment. Hence, in this simple view, privatization is certain to increase savings, investment, productivity and growth.

If government spending generally retarded economic development, the Western economies with the highest ratios of public expenditures to gross national product would be experiencing the slowest growth. However, comparative studies show that not to be the case.

The conservative view of government as an economic black hole misses what government adds to the productive resources of society and overstates what government takes away. First, much public spending represents investment in human and intangible capital as well as physical infrastructure. In the United States, the structure of the federal budget (which fails to distinguish capital expenditures) and the national income accounts (which treat all government expenditures as consumption) obscure these contributions of public spending to the nation's capital stock and long-run economic development.

Secondly, much of the contemporary increase in public spending has come in the form of transfer payments, which redistribute income but do not exhaust resources otherwise available for investment. To be sure, the governments of some countries have subsidized inefficient industries heavily, but others have used public programs to reduce opposition to industrial change by cushioning workers against unemployment and retraining them for jobs in expanding sectors. The effect of government growth depends on the character of its intervention.

The case for privatization as a means of bringing about deep reductions in government activity also neglects the contribution of increased public expenditures to economic stabilization. The business cycle has far from been abolished, but the cycle has been much less severe in the last 50 years since the scale of taxation and spending provides governments with the tools of fiscal management they formerly lacked.

Nor is there the slightest chance governments will unload responsibility for economic and financial stability. Voters will not allow it, nor will the banks. When Continental Illinois was on the verge of collapse in 1984, the Reagan administration did not hesitate to rescue it. Governmental assumption of risk, whether for the potential insolvency of pension funds, savings and loan associations, or the international financial system, shows every sign of continuing. In these persistent patterns, a lesson emerges about the limits of privatization: governments will continue to be held accountable for economic growth and security. Disengagement from macroeconomic management is impossible.

The theory of "public choice" often provides the rationale for privatization proposals. Public choice analysts attempt to explain political decisions with the same logic economists apply to markets. In this view, the public arena is nothing but a political marketplace where politicians, public employees and competing groups of beneficiaries seek their own narrow interests — often at the expense of the general welfare.

Government expands because bureaucrats maximize their budgets, and beneficiaries with "concentrated" interests in program expansion exercise more political muscle than do taxpayers with "diffuse" interests in restraint. As an explanation for the development of the modern state, the theory cannot explain the variations over time or across societies.

If the influences on the budget always were one-sidedly in favor of expansion, spending should have grown rapidly even in those periods when it has not. The economists' narrowly individualistic view of political choice also provides a misleading view of contemporary politics. Contrary to expectations, the general performance of the U.S. economy seems to weigh more heavily in voting decisions than does the voter's individual economic experience.

While conservatives puzzle over the political failure of privatization proposals, they miss the most obvious explanation because it undermines their own theory of government growth. Their proposals for privatizing the modern state make little headway because they would be vastly unpopular. □

This article was excerpted from "The Limits of Privatization" written by Paul Starr, professor of sociology at Princeton University, for the Economic Policy Institute. For more information, or a copy of the complete paper, contact the Economic Policy Institute, 1730 Rhode Island Ave., N.W., Suite 812, Washington, D.C. 20036.

MUNICIPAL COST INDEXES

The **Construction Cost Index** and the **Consumer Price Index** registered identical readings this month of 118.0. The **Producer Price Index** showed the greatest gain from last month, a 0.8 percent rise to 107.4, while the **Municipal Cost Index** increased to 115.0, 4.3 percent from last September.

Communication equipment rose 0.1 percent, to 103.8. Office machines registered 107.1, while electric components increased 1.3 percent.

—Compiled by Tim Darnell

THIS MONTH'S MARKETBASKET

	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	112.8	0.2	3.5
Apparel	111.7	0.1	0.8
Asphalt Roofing	94.7	2.8	4.2
Coal	95.2	−0.2	−1.3
Communication Equipment	103.8	0.1	1.8
Concrete Products	110.2	0.3	0.8
Construction Machinery	111.2	0.1	1.8
Diesel Fuel	51.0	−6.4	−6.9
Electric Components	117.8	1.3	2.8
Electric Power	114.2	6.0	0.9
Fans, Blowers	112.2	0	1.3
Floor Coverings	113.6	0.1	3.1
Flow Instruments	115.9	−0.3	2.5
Fuel Oil No. 2	50.4	−7.5	−9.7
Furniture	123.7	0.1	4.3
Gasoline	59.2	−0.7	−2.1
Generator Sets	121.7	0.8	6.1
Glass	109.1	−0.5	1.8
Glass Containers	112.2	−0.1	−1.0
Gypsum Products	110.3	−0.9	−13.8
Hardware	112.9	−0.1	2.8
Heating Equipment	118.4	1.5	2.9
HVAC Controls	113.9	0	0.4
Industrial Chemicals	105.9	1.7	8.3
I.C. Engines	110.9	0	1.4
LP Gas	55.8	1.5	−2.1
Lubricants	133.7	1.1	6.9
Lumber	133.4	−0.5	5.5
Metal Fabrications	114.7	0.7	9.3
Mixed Fertilizers	104.8	−0.7	11.1
Motor Vehicle Parts	106.9	0.1	0.8
Mowers	113.4	0.3	0.9
Natural Gas	76.7	−1.0	−3.4
Office Machines	107.1	0.5	2.2
Paint	113.5	0.5	4.0
Paper	122.3	0.2	11.3
Passenger Cars	112.5	1.0	−0.2
Plumbing Fixtures	126.4	0.4	5.2
Plywood	102.3	2.0	3.5
Portland Cement	103.7	0.6	0.7
Pumps, Compressors	108.6	0.7	3.4
Residual Fuel	43.7	2.6	−20.7
Rubber Products	109.0	2.8	10.2
Sand, Gravel	120.8	−0.3	2.0
Sanitary Papers	114.8	0.5	6.1
Soaps, Detergents	113.8	0.5	4.3
Sporting Goods	105.8	0.2	3.6
Steel Mill Products	111.1	0.5	10.1
Switchgear	113.6	0.6	2.6
Tires, Tubes	94.1	0.2	4.1
Tools, Dies	110.1	0	1.6
Transformers	107.3	−0.2	1.1
Trucks	110.8	0	−0.7
Valves	113.2	0.4	4.4
Wire, Cable	124.0	0.6	20.7
Wiring Devices	123.4	0.2	4.6

At-A-Glance Changes

MUNICIPAL COST INDEX

Last Year 348.9 | Last Month 114.3 | This Month 115.0

Percent Change From Last: Month **0.6** Year **4.3**

CONSTRUCTION COST INDEX

Last Year 384.4 | Last Month 117.2 | This Month 118.0

Percent Change From Last: Month **0.7** Year **2.9**

CONSUMER PRICE INDEX (BLS)

Last Year 115.0 | Last Month 117.5 | This Month 118.0

Percent Change From Last: Month **0.4** Year **2.6**

PRODUCER PRICE INDEX (BLS)

Last Year 103.1 | Last Month 106.5 | This Month 107.4

Percent Change From Last: Month **0.8** Year **4.2**

These figures are calculated on a base year of 1982.

QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	682.4	2.8	8.0
Federal Grants	111.2	10.0	9.8
Durable Purchases	29.3	2.8	11.4
Consumables	45.7	0.4	9.9
Services	430.0	2.1	8.3
Structures	64.8	−0.2	1.1
Salaries, Wages	338.3	2.0	7.9
Surplus	91.7	2.6	10.3
Employment	14.413M	0.9	−18.5